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Report Highlights:

China's poultry industry kept growing steadily in 1998. Statistics from the Ministry of Agriculture (MOA) indicated that the nation's 1998 annual production of poultry was 10.70 million metric tons, roughly 3 percent over 1997. China remains a net importer of poultry meat by volume with 1998 imports estimated at 804,000 metric tons valued at US\$613 million (includes Hong Kong re-exports). We forecast Chinese poultry production to increase at about 2 percent annual growth for both 1999 and 2000.

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EXECUTIVE SUMMARY

China's poultry industry kept growing steadily in 1998. Statistics from the Ministry of Agriculture (MOA) indicated that the nation's 1998 annual production of poultry was 10.70 million metric tons, roughly 3 percent over 1997. We forecast Chinese poultry production to increase at about 2 percent annual growth for both 1999 and 2000.

China has emerged as a major player on the world poultry meat market, both on the import and export side of the trade equation. China is recognized as one of the largest markets for poultry meat now and into the future. Second only to Russia as a major importer, China remains a net importer of poultry meat by volume with 1998 imports estimated at 804,000 metric tons valued at US\$613 million (includes Hong Kong re-exports). Nearly two-thirds of total imports pass through Hong Kong, a phenomenon continuing after reunification in July 1997.

China is also dominating the stage as one of the world's fastest-growing poultry meat exporters. From 1992, the volume of China's poultry meat exports more than tripled, reaching an estimated 367,000 metric tons valued at US\$652 million in 1998.

Since the first quarter of 1998 was unusually unsettled due to the avian flu outbreak in Hong Kong in December 1997, we will compare trade in the first quarter of 1999 to the first quarter of 1997. In the first quarter of 1999, the total exports of Chinese poultry were 69,931 metric tons in volume and US\$114 million in value, a 9.3 percent increase in volume compared to 1997 but a 11.6 percent decrease in value compared to 1997.

On the import side, the U.S. still ranked No.1 with 496,030 metric tons in volume and US\$375.8 million in value (including Hong Kong re-exports) in 1998. The market share of U.S. poultry was 62.3 percent in volume and 61.3 percent in value. Brazil became the second largest exporter to China after the United States, mainly due to the devaluation of Brazilian currency.

The European Union (EU) banned poultry from China last year and exports to Hong Kong halted temporarily at the end of 1997 due to the avian influenza outbreak. Reduced Chinese exports to these markets are adding to the surplus of domestic supplies, particularly in southern China.

In the first quarter of 1999, direct imports of poultry meat for China increased to 111,804 metric tons valued at US\$58.7 million, a rise of more than 200 percent over the previous year. The Hong Kong re-exports were 182,962 metric tons valued at US\$133 million, up 54 percent and 34 percent, respectively, compared to the same period of 1998.

In April 1999 the Chinese government signed a bilateral cooperative agreement which, among other things, indicates Chinese recognition of the U.S. certification system for meat and poultry. This agreement will improve access for U.S. poultry products to all segments of the Chinese market including sales to the emerging supermarket sector.

Poultry meat prices continue to fall in China following the drop in pork prices nationwide as well as due to weaknesses in China's general economy which are effecting consumer demand.

For the egg industry, China's egg production for 1998 reached 22.2 million metric tons (about 40 percent of world production), up 7 percent from 1997. China has been the world's largest egg producer since 1980 with double-digit growth rate through 1996. For the last two years, the growth rate of egg production has slowed

down to 7 percent annually. China's per capita egg production reached 17.7 kg in 1998, far above the world average of 8.9 kg.

We believe that the poultry industry in China will be getting slightly more profitable later this year. The main reasons are the local economy is recovering and the local corn price remains lower than in past years (approximately RMB 1,200/mt).

POULTRY

Production

Statistics from the Ministry of Agriculture (MOA) indicated that the nation's 1998 annual production of poultry

PSD Table

Country Commodity	China, Peoples Republic of Poultry, Meat, Total				(1000 MT)(MIL HEAD)		UOM
	Revised Old	1998 New	Preliminary Old	1999 New	Forecast Old	2000 New	
Market Year Begin		01/1998		01/1999		01/2000	MM/YYYY
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	10920	10700	11500	10900	0	11120	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	800	804	820	850	0	870	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	800	804	820	850	0	870	(1000 MT)
TOTAL SUPPLY	11720	11504	12320	11750	0	11990	(1000 MT)
Whole, Exports	40	35	50	50	0	50	(1000 MT)
Parts, Exports	314	320	290	350	0	360	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	354	355	340	400	0	410	(1000 MT)
Human Consumption	11366	11149	11980	11350	0	11580	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	11366	11149	11980	11350	0	11580	(1000 MT)
TOTAL Use	11720	11504	12320	11750	0	11990	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	11720	11504	12320	11750	0	11990	(1000 MT)
Calendar Yr. Imp. from U.S.	0	496	0	520	0	545	(1000 MT)

was 10.70 million metric tons, roughly 3 percent over 1997. According to MOA information, the total inventory of poultry for China was 38 billion birds while the total slaughter was 75.9 billion birds in 1998.

Table 1. China's Meat Production by Type: 1995-1999

Unit: Million Metric Tons

	1995	1996	1997	1998	1999*
Pork	29.20	31.58	34.64	36.20	36.80
Beef	3.25	3.56	4.15	4.30	4.40
Mutton	1.80	1.81	2.10	2.40	2.50
Poultry	8.44	9.63	10.40	10.70	10.90
Total	42.96	45.95	51.52	53.60	54.50

Table 2. Rate of Increase Over Preceding Year

Unit: Percentage

	1995	1996	1997	1998	1999*
Pork	13.8	8.2	9.7	4.5	1.7
Beef	26.1	9.5	13.7	3.6	2.3
Mutton	25.0	1.0	16.0	14.3	4.2
Poultry	23.0	14.1	8.0	2.9	1.9
Total	16.9	7.0	7.0	4.0	1.7

Table 3. Share of Total Meat Production

Unit: Percentage

	1995	1996	1997	1998	1999
Pork	68.0	68.7	67.2	67.5	67.5
Beef	7.6	7.7	8.1	8.0	8.1
Mutton	4.2	3.9	4.1	4.5	4.6
Poultry	19.6	20.9	20.2	20.0	20.0

Table 4. China's Per Capita Meat Production by Type: 1995-1999

(Kgs/person)

	1995	1996	1997	1998	1999 *
Pork	24.6	26.9	28.1	28.4	28.8
Beef	3.0	3.5	3.7	3.9	4.1
Mutton	1.5	1.8	1.9	2.0	2.2
Poultry	7.1	8.0	8.5	8.8	9.0
Total	36.2	40.2	42.2	43.1	43.5

Note: Derived from population and production data; *ATO Shanghai forecast.

Source: China Statistical Yearbooks, China Meat Association

In 1998, the poultry industry growth was to the satisfaction of all sides: the producer, the consumer and the government. For producers, the corn price fell for nearly one year by a margin larger than the decrease in prices for animal products; as a result, producers were able to lower production cost and reaped better economic returns. In major corn-growing regions, the development of poultry production facilities complemented grain planting, and agricultural production as a whole got better results as crop planting and poultry raising complemented each other at a high level. For consumers, supply was abundant and prices fell. A brisk market for poultry and poultry products not only benefitted both producers and consumers, but also contributed a lot to the government's efforts to curb inflation and stabilize the domestic retail prices.

Modern large-scale poultry production in China is a relatively new development, and the United States has for the past twenty years assisted China to develop its poultry raising technology. Several key foreign companies have also invested in poultry raising in China. Many of the largest, most modern poultry raising operations are located in southern regions of China that produce no corn. But the key to success for these enterprises is access to low-cost corn. In recent years, the Chinese government has tightly controlled imports of corn and requires poultry producers to use domestic corn at subsidized prices that are at least 50 percent over world prices. Allowing imports of corn at world prices would allow the producers to compete.

Rapidly growing broiler meat production in China since the late 1980's supported by close proximity to other Asian markets has allowed China to surpass the European Union (EU) to become the second largest poultry producer in the world, and its industry continues to grow.

Consumption

Newly implemented reforms to restructure state-owned enterprises in China and pressure on consumers to pay more for previously-provided housing and education have resulted in considerable economic uncertainty as well as a reallocation of spending that has slowed consumer demand for poultry products.

Domestic household consumption remained sluggish even though the government has lowered interest rates seven times in recent three years. Expectations of slower economic growth among Chinese consumers curtailed demand for both domestic and foreign poultry meat and products.

Despite the Asian financial crisis and weak domestic household consumption over the food service industry in 1998, China took over 1,500 containers of the imported chicken paws/feet and wings every month.

Many Shanghai local consumers are avoiding pork, beef, and milk, because there was an outbreak of Foot and Mouth Disease (locally called “#5 disease”) within beef cattle, dairy cattle, and swine in Shanghai and many other provinces in recent months. The Chinese government does not publicize animal disease problems as is required in the USA and other major meat producing nations, so consumers are worried, distrustful, and uninformed about the effects of animal diseases on human health.

Shanghai consumers are very sensitive to this issue. They are relatively wealthy for China. People have also temporarily changed their purchases from red meat to poultry and fish. Consumers also heard or read reports in the press that Hong Kong recently discovered additional cases of avian diseases in poultry, so some consumers

are still worried about eating broiler meat, too. There is definitely a demand for safe, wholesome meat and dairy products. U.S. producers should position their products as clean and thoroughly safe, having been carefully produced according to the highest standards and then inspected by USDA.

Consumer preferences in Hong Kong and China differ given the large gap in living standards. Consequently most of the more expensive imported chicken parts such as mid-joints, wings, and legs stay in Hong Kong. The less expensive parts, such as offal, gizzards, low-priced mid-joints and particularly feet and paws, are the best selling items in the mainland Chinese market.

China promises to be an important and growing market for poultry meat in the future. An expanding middle class and relative low per capita consumption levels imply that consumption will continue to grow while domestic production is likely to be constrained by limited availability of grains and protein meals.

Trade

Export Trade Matrix

Country	China, Peoples Republic of		
Commodity	Poultry, Meat, Total		
Time period	Units:	Metric Ton	
Exports for:	1997	1998	
U.S.	198	U.S.	1521
Others	Others		
Japan	239946		259036
Hong Kong	53171		45855
South Africa	5220		7901
Switzerland	7046		7557
Saudi Arabia	5682		7236
Total for Others	311065		327585
Others not Listed	55416		24931
Grand Total	366679		354037

China
has
emerg

Import Trade Matrix

Country	China, Peoples Republic of		
Commodity	Poultry, Meat, Total		
Time period	Units:	Metric Ton	
Imports for:	1997	1998	
U.S.	101603	U.S.	87022
Others	Others		
Brazil	42547		65203
France	7677		7757
Thailand	4719		5690
Argentina	8946		5378
Belgium	10508		3750
Mexico	504		2370
United Kingdom	1548		2251
Iran	4059		1369
Australia	8982		300
Total for Others	89490		94068
Others not Listed	18354		20910
Grand Total	209447		202000

ed as a major player on the world poultry meat market, both on the import and export side of the trade equation. China is recognized as one of the largest markets for poultry meat now and into the future. Second only to Russia as a major importer, China remains a net importer of poultry meat by volume with 1998 imports estimated at 804,000 metric tons valued at US\$613 million (includes Hong Kong re-exports). Nearly two-thirds of total imports pass through Hong Kong, a phenomenon continuing after reunification in July 1997. The direct imports of poultry for China in 1998 reached 202,000 metric tons on volume valued at US\$108 million, down 7 percent in quantity and 16.6 percent in value, respectively, from 1997. Hong Kong re-exports of poultry meat for 1998 reached 601,639 metric tons, 5.2 percent over 1997, valued at US\$497 million, down 11.4 percent compared to 1997. The U.S. still remained number one for China poultry imports while Brazil took second and

France was in third place. The market share of these three countries based on volume was 43 percent, 32 percent and 4 percent respectively.

Although the import tariff for poultry meat was reduced significantly from 45 percent down to 20 percent on October 1, 1997, importers report that the reduction means little real change and the tariff still remains fairly high. When the 13 percent VAT is added, the total tariff plus VAT is still high. Therefore, it is still most economical to import frozen poultry meat through south China ports (the "grey channel") where the total fee per container method is still cheaper than paying full tariff plus VAT.

China is also dominating the stage as one of the world's fastest-growing poultry meat exporters. From 1992, the volume of China's poultry meat exports more than tripled, reaching an estimated 367,000 metric tons valued at US\$652 million in 1998. Rapidly expanding broiler meat production in China since the late 1980's supported by close proximity to other Asian markets has allowed China to surpass the European Union (EU) to become the second largest poultry producer in the world, and its industry continues to grow. The poultry industry has witnessed a restructuring over the past decade with foreign joint ventures working with state-owned enterprises to support a transition of the industry into one of specialized contract growers of modern broiler meat type birds.

Major constraints to China's exports of frozen chicken products are the financial crisis in Southeast Asia in 1998 and the closing of the EU market since August 1, 1996. Japan has been a major market for China's broiler exports, while Thailand has been a major competitor. The financial crisis greatly depreciated the Thai baht, making its frozen chicken products more competitive. In addition, the EU closed to China in August 1, 1996 under the pretext of quarantine, making Thailand's exports of chicken breast meat to EU rise to around \$3000/mt. Thailand took this opportunity to substantially cut its prices of chicken legs sold on the Japanese market, making things impossible for Chinese enterprises. On the other hand, the price of chicken meat dropped from US\$2,600/mt down to US\$900/mt at present.

China's poultry exports in 1998 were down 24 percent compared to 1997, due to increased competition in third countries from Thailand, where poultry exports are benefitting from the devalued Baht. Further exacerbating the situation for poultry have been sanitary restrictions. The European Union (EU) has banned poultry breast meat from China since October 1997 and exports to Hong Kong halted temporarily at the end of 1997 due to a bird flu scare. Reduced exports to these markets are adding to the surplus of domestic supplies, particularly in southern China.

Since the first quarter of 1998 was unusually unsettled due to the avian flu outbreak in Hong Kong in December 1997, we will compare trade in the first quarter of 1999 to the first quarter of 1997. China's poultry exports in the first quarter of 1999 reached 69,931 metric tons valued at US\$113.9 million, a 9.3 percent increase in volume but 11.6 percent decrease in value compared to the same period of 1997.

In the first quarter of 1999, total mainland direct imports of poultry meat reached 111,804 metric tons valued at US\$58.7 million, increasing more than 180 percent over the same period of 1997. The Hong Kong re-exports were 182,962 metric tons valued at US\$133 million, up 54 percent and 34 percent respectively compared to the same period of 1998.

The volume of imports of U.S. frozen chicken and offal was up significantly in the first quarter of 1999, mainly due to the basement prices for chicken leg quarters diverted from the Russia market. During the first quarter of 1999, direct imports of U.S. poultry were 53,912 metric tons valued at US\$31 million, a 193.7 percent increase over the volume and a 158.3 percent over the value in the same period of 1997. Hong Kong re-exports to China

of U.S. poultry meat equaled 133,808 metric tons valued at US\$90.8 million, a 68 percent increase over the volume and a 46 percent increase over the value in the same period of 1998.

In general, the local Chinese traders have a Hong Kong partner who places the orders from American suppliers, and the Chinese companies normally do not order directly. A few traders do communicate their orders directly to U.S. suppliers and they may also hire a specialized customs declaration firm to arrange customs clearance (sometimes these firms are run by customs officials themselves). Some said that they look forward to trading by Internet soon and dealing directly with the American companies by e-mail or home pages.

Many Chinese wholesalers have reported that importing frozen poultry is very difficult because the margins between domestic and imported products are so narrow. Import demand, as revealed by Hong Kong import statistics, continues to be concentrated in chicken paws and wings.

Trade Matrix

Live Poultry		Unit: thousand birds	
Exports 1998 to:		Imports 1998 from:	
-U.S.....		-U.S.....	504
-Other		-Other	
Hong Kong	39,055	Netherlands	59
Macau	3,297	Germany	18
Russia	124	Israel	36
-----		France	45
Total of Others	140	U.K.	44
-----		-----	
Total	42,616	Total of Others	10

		Total	716

Source: PRC Customs Statistics

Trade is still strong and grow despite the highly publicized anti-smuggling campaign. We forecast that the total imports and exports of poultry for China will increase in 1999.

Price

Poultry meat prices continue to fall in China following the very low pork prices nationwide as well as due to weaknesses in China's general economy which are effecting consumer demand.

Economic problems in Russia have caused many containers of cheaper leg quarters to be diverted to China from Russia. The wholesale price of these products dropped to RMB5,800/mt, even lower than the FOB price quoted from U.S. On the other hand, due to the weak local economy and the over-supply of local poultry, the price of poultry meat is very low at RMB7/kg for leg quarters, down almost 15 percent compared with last year. Most of processors and traders lost money in the poultry business.

Prices for imported poultry are often unstable as the market is highly influenced by the government policy crackdown on smuggling at southern ports, and fluctuating transportation fees. That is why the price of imported poultry in Guangdong is sometimes even cheaper than in the U.S.A.

Table 1

THE LATEST RETAIL PRICE INFORMATION ON POULTRY MEAT IN SHANGHAI

1. Mid-Wing Joint
RMB15,000 to RMB17,000 per metric ton
2. Buffalo Wings
RMB11,500 to RMB13,800 per metric ton
3. Whole Wings
RMB10,500 to RMB13,500 per metric ton
4. Legs
RMB10,000 to RMB13,000 per metric ton
5. Gizzards
RMB14,500 to RMB18,500 per metric ton

Source: Shanghai Shangqing (Commercial Information), July 28, 1999

Live poultry and table egg on the wholesale market in Shanghai (wholesale prices)

Local hen	RMB14.00--16.00/kg
Broiler	RMB10.00--12.50/kg
Good quality chicken	RMB6.00--7.00/kg
Ross chicken	RMB6.00--6.80/kg
Silky chicken	RMB10.00--13.00/kg
Two-yellow chicken	RMB10.00--13.00/kg
Duck	RMB9.00--11.50/kg
Duck with red head	RMB10.00/kg
Wild chicken	RMB22.00/kg
Egg	RMB4.50/kg

Source: Shanghai Evening Newspaper, August 6, 1999

US\$1=RMB8.27

Government Policy

A. A New Regulation

The former CAPQ released a new regulation regarding the import of U.S. poultry products in October 1998. Here is the English version as translated by this office:

“Recently, there were some outbreaks of low pathogenic bird influenza in some poultry farms in the United States and later on they separated into flu virus with different serums among poultry and poultry products from more than 10 states.

In consideration that China has been importing a lot of poultry meat and egg products from the U.S. in recent years and to protect the safe production of China’s animal husbandry and to prevent spread of the poultry disease into China, the former CAPQ has set up the regulation as the following:

1. Prior to the import of U.S. poultry and poultry products, importers must go through the procedure of quarantine, examination and approval with the State Administration for Entry-Exit Inspection & Quarantine of the People’s Republic of China (CIQ).
2. Following documentary materials must be submitted along with the application:
 - a. Country of origin (name of the farm house or feed lot) of poultry and detailed address.
 - b. Name, detailed address, USDA registration and approval document and USDA registration number of the poultry production and processing plant.
3. After the importation, the poultry meat and poultry products imported from the U.S. must be processed and utilized at the registered units. An exclusive place to store the products, a system of registration and canceling after verification on inflow/outflow of the products at the storage must be established. Refuse, slops, leftover bits and pieces and other waste materials should be disposed harmlessly in time.”

According to the regulation, we understand that CIQ is concerned about the virus and why they require importers to get permits from its headquarters in Beijing.

B. Recognition of U.S. Certified Poultry Products

In April, 1999 the Chinese government signed a bilateral cooperative agreement which, among other things, indicates Chinese recognition of the U.S. certification system for meat and poultry. This agreement will significantly improve access for U.S. poultry product to all segments of the Chinese market. This will be a positive factor for future poultry exports from the United States to China.

C. EU Dioxin Scandal

In June, 1999 China’s Ministry of Public Health issued an urgent circular suspending all livestock and dairy products imports (including raw materials and partially processed products) from Belgium, the Netherlands, France and Germany. Any products produced in these countries after January 15, 1999, that already were imported, may not be sold. This action was taken in response to reports that these products may have been contaminated by dioxin in those countries.

D. Poultry Breeding System

A system of livestock and poultry breeding has taken shape. The animal husbandry sector has set up over 1,700 breeder stock and breeder bird farms, with 83 being state-level key ones, as well as state-level breeding centers for poultry, lean-meat pigs and cows, thus forming a complete system of domestic animal breeding. The fine breeds from such farms have been used extensively in production.

Meanwhile, large number of fine breeds have also been introduced from abroad and used widely in the country. Legal administration of breeder stock and breeder bird production was strengthened; frozen semen stations and key breeding farms was enhanced; and quality inspection of breeding swine and breeder birds was conducted.

More efforts were devoted to the construction of key projects for veterinary protection. Smooth progress was made in the following projects: the key animal vaccine projects of Nanjing Biological Pharmaceutical Plant and Lanzhou Veterinary Research Institute; the construction of the animal disease monitoring and forecast system; the construction of veterinary medicine inspection; and the preparation for veterinary dagnosticum and serum banks.

Legislation for animal husbandry was enhanced. The Animal Epidemic Law was promulgated, which defines the leading and administrative role of agricultural and animal husbandry departments in epidemic prevention and quarantine for livestock and poultry and the tasks for grassroots units, and promotes the smooth progress of veterinary work.

The “Rules for the Implementation of the Regulations on the Breeder Stock and Breeder Bird Management” was promulgated to govern the production an management of stud stock and breeder birds. The “Rules for the Implementation of the Regulation on the Management of Veterinary Medicine (revised)” and the “Procedures for the Management of Imported Veterinary Medicine” were released to govern the production, import, marketing and management of veterinary medicine.

E. Poultry Veterinary Advances

Veterinary protection made remarkable progress. Reinforced efforts were devoted to the prevention and treatment of animal diseases that harm animal husbandry and people’s health, and brought under control were hog cholera, Newcastle disease, Marek disease, bacillar disease, anthrax, rabbit pest, and rabies.

Fowl coryza monitoring was strengthened, which won fair appraisal from the World Health Organization (WHO) after inspections by WHO officials, and the incidence of fowl coryza in Hong Kong was calmed down. The mortality rate of chicken disease was 49 percent in early 1950s and 20 percent in 1970s, and it fell to 18 percent in 1990s.

The system of animal epidemic supervision and veterinary medicine management was constantly improved. All the provinces, prefectures (cities) and counties have set up veterinary supervision and inspection stations, with over 60,000 supervisors for animal epidemics and over 700,000 veterinarians at grass-roots units (including over 230,000 animal quarantine workers); also set up were 370 veterinary medicine inspection stations with a combined staff of over 8,000.

F. Grain Policy Changes Effecting Poultry Producers

Grain price policy reforms, implemented in April 1998, have led to a clampdown on private sales of grains. All

buyers are now required to purchase feed inputs from grain bureaus at prices considerably higher than world prices. This implies a higher cost, less efficient poultry meat industry in the future.

The Chinese Tax Authority has announced that it will impose a 13 percent VAT on soybean meal, effective on January 1, 1999. Soybean meal imports are expected to fall in 1999 and that will also affect the cost of poultry production.

G. Anti-Smuggling Campaign

Since the central government pays much attention to the crack-down on smuggling, it becomes more difficult to move imported poultry products from southern China (the normal routine, called grey channel) into other main cities, such as Chengdu, Chongqing, Hangzhou, Nanjing, Wuxi, Shanghai, Beijing, Tianjing, Qingdao, Dalian and Shengyang. As the grey channel carries more risks than before, transportation fees have increased and this is reflected in the price of imported poultry meat. The price difference between the locally produced and imported poultry meat has narrowed, which will hurt the import business. On the other hand, the price of broiler exports is getting worse. Some of these products will stay on the domestic market, which also causes domestic prices to decline.

The latest campaign against smuggling appears to be waning already. Volumes were never really threatened; only the value of imports. Margins for poultry are getting very tight (3 percent or less) causing some trading companies to abandon poultry trade to large producer/exporter companies.

In April 1999, the local government in Chengdu (Sichuan) closed down the city's entire wholesale meat market, which is the second largest frozen wholesale meat market in China. The reason was that the authorities determined that some of imported meat was smuggled. More than eight percent of all frozen meat is poultry meat. This effected the imports of poultry meat from all countries including some U.S. poultry suppliers.

Since November 1, 1998, the Chinese government required all small vessels (under 500 metric tons) coming from Hong Kong and Macau bound for the ports of Whampoa, Guangzhou, Foshan, Panyu, Nansha, Huadu, Nanhai and Shunde to stop at Dachan Island, which is offshore from Shenzhen. There importers are required to make customs declarations and present documents of inspection, including bills of lading and import permits.

Even though customs officials do not inspect cargo, they record details of the shipment, then place an official seal on the container before it is released. The shipment then continues on to its destination where it will clear customs. The Chinese government requires this inspection to stop containers from being repacked and to make certain the ports have records of the shipments. The government also opened two more such inspection points on January 1, 1999. One was at Sanmen Island, to cover Shenzhen, Huidong, Shantou and Shenmei. The other one was at Guishan Island, to cover Zhuhai, Zhongshan, Jiangmen, Xiuhui, Zhangjiang and Yangjiang.

In the past, Chinese transportation companies who handle the transportation arrangements for frozen poultry from Hong Kong to the mainland always under-declared the volume, sometimes as low as 10 metric tons per 40-foot refrigerated container. The minimum quantity per container was then revised to 16 metric tons in July 1998. Since the set-up of the Dachan Island Inspection Point, we understand that they have to revise the volume to at least 20 metric tons per container (the normal volume is 30 metric tons per container for poultry). Because cargo may no longer be under-declared, another result of the inspection is increased tariffs. Inspections also will no longer accept a declaration of "mixed chicken offals, cut-up", which has a very favorable transportation fee of only RMB950 per metric ton, including a 17 percent VAT. An example of the recent transportation fees

(plus the 17 percent VAT) for chicken legs and wings was RMB2,650 per metric ton, while the fee for wingtips and paws was RMB2,100 per metric ton.

Because of the tight situation, many transportation companies face difficulties in moving frozen poultry products into mainland and in fact some have been forced to stop their business. Transportation costs, therefore, have increased by RMB600-700 to RMB 1,800 per metric ton.

BROILER

Production

Domestic broiler output in China will continue to grow but at a slower pace than the double digit increases of the past decade. Factors supporting continued growth include labor availability, technical capabilities, large domestic market and strong demand in nearby Asian markets. Government policies are encouraging the

PSD Table

Country Commodity	China, Peoples Republic of Plty, Meat, Chicken -16 wks				(1000 MT)(MIL HEAD)		UOM
	Revised Old	1998 New	Preliminary Old	1999 New	Forecast Old	2000 New	
Market Year Begin		01/1998		01/1999		01/2000	MM/YYYY
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	5460	5350	5750	5500	0	5600	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	755	755	780	780	0	820	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	755	755	780	780	0	820	(1000 MT)
TOTAL SUPPLY	6215	6105	6530	6280	0	6420	(1000 MT)
Whole, Exports	35	30	30	35	0	35	(1000 MT)
Parts, Exports	300	310	290	340	0	345	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	335	340	320	375	0	380	(1000 MT)
Human Consumption	5880	5765	6210	5905	0	6040	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	5880	5765	6210	5905	0	6040	(1000 MT)
TOTAL Use	6215	6105	6530	6280	0	6420	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	6215	6105	6530	6280	0	6420	(1000 MT)
Calendar Yr. Imp. from U.S.	0	470	0	495	0	520	(1000 MT)

expansion of the broiler industry, particularly in the Yellow River area of China, due to the increase efficiencies in converting feed to poultry meat rather than red livestock. Potentially limiting factors to broiler expansion include limited feedstuffs suppliers, infrastructure, training and organization of personnel to control diseases and environment concerns. Despite increased poultry production in China, growth in demand is expected to surpass

that of output, opening further the door to increased imports.

Locally-raised yellow birds (native breeds) are gaining in popularity in Shanghai and other leading cities in south China. Although these birds take longer to raise, the premium that consumers are willing to pay often exceeds the additional production costs. In Shanghai, for example, Perdue has a new joint-venture with Dah Chong Hong to produce, slaughter, and pack for retail sale a breed of yellow bird from French and Israeli stock. This type of bird is gaining in consumer acceptance and Perdue has plenty of room to grow at this facility.

Modern white bird broiler operations are still suffering from the continuing ban in some countries on imported chicken meat from China which was implemented in response to the avian flu outbreaks in Hong Kong in December 1997. If they can not find a market for the breast meat at prices higher than those prevailing for breast meat in China, then many operations will find it difficult to maintain long-term profitability. Shanghai-based Da Jiang has reportedly reduced its daily poultry slaughter by 50 percent in recent months. The lack of export markets in Europe, lower sales to Japan, and problems in Thailand for CP have hurt Da Jiang's financial health.

Consumption

Locally raised yellow birds are getting popular. You can find whole yellow birds and their frozen cuts in TOPS and METRO supermarkets in Shanghai. Perdue and its partner, Dah Chong Hong, are promoting a new label for their line of products in Shanghai. Even though Perdue's products command a 15 to 18-percent price premium over Da Jiang's, the established brand, many consumers are happy to pay the difference for the tastier yellow bird. Another difference is in the packaging. Perdue's product is tray packed while Da Jiang's is a lower quality, frozen lump of parts packed in a plastic bag. Perdue is working with many retail chains on a promotion which will be supported by a weekly cooking show and advertisements on local Shanghai television. Although there are more than 300 Kentucky Fried Chicken (KFC) restaurant and 260 McDonald's in China, Chinese fast food restaurants featuring locally raised yellow birds, such as Xiaoshaoxing and Zhengdingji are also very popular especially in Shanghai. Every day, the local yellow chicken chain restaurants are very crowded, and their business is sometimes better than KFC's and McDonald's.

Trade

China is very interested to push exports of chicken breast meat. Chinese consumers do not prefer breast meat and local prices are far below world prices for breast meat. The Chinese government is encouraging local broiler processors to export chicken breast meat to the world market. Traders report that Chinese chicken breast meat was exported to Mediterranean countries through U.S. traders. Its export price was U.S.\$1,300/mt or even lower.

As was reported by the ATO Guangzhou, "Panyu which is located in Guangdong province is the country's largest poultry import market, with about 100 trading companies having offices there. The market emerged in large 1995 after the government cracked down on imports into the nearby Huidong market. Discussions revealed that roughly 65 percent of China's imports of meat and poultry come through Guangdong for shipment to other parts of China. In fact, 100 percent of Panyu's meat and poultry imports trans-ship Hong Kong. Meanwhile, of the frozen meat that is imported here, about 80 percent if of USA origin. For chicken meat, the amount of U.S. origin is about 45 percent right now due to competition from Brazil and Europe. Buyers from all over China, including Shanghai and north, come to Panyu buy supplies. Product comes to the Panyu port and is moved onto trucks for movement north. Estimates the area's turnover range from 10,000 MT to 30,000

MT per month.

Importers pay a transportation fee to companies that have the trading rights, import licenses, or trade connections to bring in product and get product through Customs and Quarantine inspection. All of the importing companies are not equal. Some of them own their transportation companies, and some of them have their own trading rights or import licenses. The system is very similar to that for fresh fruit. As for fruit, the meat/poultry import transportation fees have also risen this year, as fewer companies have survived the central government's smuggling crackdown and so can now charge monopoly prices. The basic transportation cost is now RMB2,000 - 2,100 (U.S.\$242-254) per metric ton, versus RMB1,400-1,500 in 1998. One component of the transportation fee is the customs assessment. In the case of chicken parts, Customs sets a daily price for tariff purposes rather than relying on declaration of price/value by importers. Those daily set prices used to be generously low, but have reportedly been increasing in reaction to central government pronouncements. Other fees included are an inspection fee and a sanitation fee."

Brazil became the second largest poultry exporter for China, far ahead of France, the third. Brazil's market share continued to increase in 1999. A key factor was the devaluation of Brazil's currency, but Brazilian packaging and sizing are also preferred by most traders. U.S. exporters would be wise to thoroughly investigate what the competition is doing to gain market share at the expense of the USA for the second year in a row.

To emphasize this point, we refer to a section of last year China Poultry Annual written by this office, "The competition for U.S. poultry products is not only from the domestic one but also from other foreign countries such as Brazil, Australia and France. And also the quality and packaging problems on the U.S. poultry products have been put forward many times by the local wholesalers. The traders strongly suggested that it was very important for us to let the U.S. poultry exporters to realize these critical issues and make improvements as soon as possible.

During our visit, we saw examples of domestic poultry product with very high quality and good packaging. The standard size and fresh color of the products pose a threat to the imported frozen chicken. Furthermore, Brazilian poultry products have a good reputation in the Chinese market because an additional plastic bag is used to pack the carton box and its good grading system which means to satisfy the customers' requirements. For example, chicken paws are classed into small, medium and large size which the Chinese customers can choose depending on their needs. U.S. chicken paws, on the other hand, are less uniform in size and do not have the extra plastic on the outside of the carton, sometimes resulting in flimsy, water damaged cartons which may have had ice melt on them or perhaps had undergone partial thawing on their long journey on the highways of East China.

Competition has intensified in China, and the U.S. share of the imported chicken parts market has decreased from 80 percent a few years ago to around 60 percent today. If U.S. exporters still insist on packaging and sizing their products in a way that best suits themselves and not their customers, then they will continue to lose market share. China is a large market which requires close attention not only the price but also quality, specification, and packaging too.

In some urban areas in China, many outdoor (wet) markets are being phased out and moved inside. While U.S. poultry parts packed in bulk in 20 kilogram cartons are quite acceptable for wet market sales, smaller retail packages with Chinese labels are needed for the newer, cleaner supermarkets. Yet until now, there are no U.S. poultry exporters packaging products for this newer retail environment in Shanghai.

Some companies may point to the CAPQ trade barrier that still exists on paper to restrict sales of imported poultry to hotels and restaurants. However, it is worth noting that trading companies selling beef from the United States and Australia have for five years now been promoting their products in China's supermarkets despite the same restrictions. You can find tray packs of imported, frozen beef in almost every local supermarket in Shanghai. Following their examples, we believe that aggressive, Chinese-based trading companies might well be successful importing and locally re-packaging some competitively-priced U.S. chicken parts such as chicken paws, gizzards, hearts, and wing in small packages for supermarket sale in China."

In signing the U.S. - China bilateral agreement on agriculture in April 1999, China officially recognized the U.S. meat inspection system and will allow access for U.S. poultry to all retail and food service sectors in China. The challenge for U.S. exporters is to aggressively take advantage of this opportunity and to meet the challenge of our top competitors.

Price

The retail price of broiler meat for 1998 was lower, mainly because of lower pork prices. We expect poultry prices to increase slightly in the second half of 1999.

EGG

Production

PSD Table

Country Commodity	China, Peoples Republic of Poultry, Eggs				(MIL HEAD)(MIL PCS)		UOM
	Revised Old	1998 New	Preliminary Old	1999 New	Forecast Old	2000 New	
Market Year Begin		01/1998		01/1999		01/2000	MM/YYYY
Layers	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(MIL PCS)
Production	363508	363870	380000	382065	0	400000	(MIL PCS)
Hatch Eggs, Imports	2	2	2	2	0	2	(MIL PCS)
Shell Eggs, Imports	3	4	3	4	0	4	(MIL PCS)
Other Imports	0	1	0	2	0	2	(MIL PCS)
Intra EC Imports	0	0	0	0	0	0	(MIL PCS)
TOTAL Imports	5	7	5	8	0	8	(MIL PCS)
TOTAL SUPPLY	363513	363877	380005	382073	0	400008	(MIL PCS)
Hatch Eggs, Exports	100	100	110	110	0	115	(MIL PCS)
Shell Eggs, Exports	740	865	820	1150	0	1175	(MIL PCS)
Other Exports	60	60	70	70	0	70	(MIL PCS)
Intra EC Exports	0	0	0	0	0	0	(MIL PCS)
TOTAL Exports	900	1025	1000	1330	0	1360	(MIL PCS)
Hatch Eggs, Consumption	6620	6620	6700	6700	0	6800	(MIL PCS)
Shell Eggs, Human	343993	344232	359805	361543	0	391848	(MIL PCS)
Shell Eggs, OT, Use/Loss	12000	12000	12500	12500	0	0	(MIL PCS)
Other Dom. Consumption	0	0	0	0	0	0	(MIL PCS)
Total Dom. Consumption	362613	362852	379005	380743	0	398648	(MIL PCS)
TOTAL Use	363513	363877	380005	382073	0	400008	(MIL PCS)
Ending Stocks	0	0	0	0	0	0	(MIL PCS)
TOTAL DISTRIBUTION	363513	363877	380005	382073	0	400008	(MIL PCS)
Calendar Yr. Imp. from U.S.	0	3	0	3	0	3	(MIL PCS)

China's egg production for 1998 reached 22.2 million metric tons (about 40 percent of the world's production) up 7 percent from 1997. China has been the world's largest egg producer since 1980 with double-digit growth rate of 12.7 percent till 1996. For the last two years, the growth rate of egg production has slowed down its to 7 percent annually. China's per capita egg production reached 17.7 kg in 1998 far above the world average of 8.9 kg. The layer inventory reached 626 million birds in 1998. Provinces with production capacities over 1 million metric tons provinces are Shandong, Hebei, Jiangsu, Henan, Liaoning, Hubei and Helongjiang.

Strong demand from urban residents is propping up the egg industry. Encouraged by favorable local government policies, rural farmers, the main forces of egg producers in China, are raising layers or running breeding farms either privately or on a contract basis. 76 percent of total egg production is from specialized private households and only 24 percent is from the state-owned or collective farms.

Profitability of egg products in China has been declining since 1997 due to supply exceeding demand. However, those specialized private households and individual farmers were still able to get a little profit while most large and medium state-owned farms experienced more difficulties.

China's production and domestic sales of egg products are very strong while the further processed sector is very weak and far behind world leading technologies. China is expected to continue to be the world's largest egg producer in 1999. With the development of its food industry, further processing of egg products is likely to grow in China and much attention will be paid to the renovation of old egg production facilities and introduced advanced technologies.

Consumption

China's per capita egg consumption is around 17.7 kg in 1998, which is much higher than the world average. Fresh shell eggs are the most popular form of consumption for 90 percent of the chicken eggs and 10 percent of the duck eggs. Conversely, among all the processed eggs, only 10 percent of the chicken eggs are used for food processing, while 90 percent of the duck eggs are used for salty and preserved eggs.

In general, China's oversupply of egg products makes it fully self-sufficient in egg consumption. Thus, the market potential for U.S. unprocessed eggs is extremely limited.

Trade

Export Trade Matrix

Country	China, Peoples Republic of		
Commodity	Poultry, Eggs		
Time period		Units:	Metric Ton
Exports for:	1997		1998
U.S.	1926	U.S.	1886
Others		Others	
Hong Kong	48713		43673
Macau	4434		3656
Japan	2459		2816
Vietnam	926		1658
Singapore	863		898
Canada	1039		706
Korea Republic	345		276
Malaysia	295		254
Total for Others	59074		53937
Others not Listed	674		903
Grand Total	61674		56726

Import Trade Matrix

Country	China, Peoples Republic of		
Commodity	Poultry, Eggs		
Time period		Units:	Metric Ton
Imports for:	1997		1998
U.S.	133	U.S.	47
Others		Others	
Vitnam	208		315
Belgium	349		25
Japan	11		15
Hong Kong	48		1
Total for Others	616		356
Others not Listed	80		40
Grand Total	829		443

China exported 865 million shell eggs valued at US\$32.7 million and 2,715 metric tons of egg products valued at US\$3.84 million in 1998. Hong Kong, Macau and the U.S. were the top three shell-egg markets for China, with volume of 676, 59 and 30 million eggs valued at US\$ 21.1, 2.7 and 2.1 million respectively in 1998. Hong Kong, Japan and Australia were the top three egg products markets for China, with volume of 1,443, 1,187 and 50 metric tons in 1998.

China also imported 6 million shell eggs valued at US\$629,734 and 70 metric tons of egg products valued at US\$109,380. Vietnam was the largest exporter of shell-eggs to China, with volume of 5 million eggs valued at U.S.\$0.38 million in 1998. The United States was the number one exporter of processed egg products to China with a volume of 70 metric tons in 1998.

Price

Due to the surplus supply, the retail price of shell eggs dropped to RMB4.80-5.60 (U.S.\$0.58-0.68) per kilogram, 20 percent lower than the year before.

APPENDIX

Appendix A

Price Information on China's Livestock Products at Wet Markets in May 1999

Province	A	B	C	D	E	F	G	H

Beijing	13.55	6.65	2.28	3.09	4.75	8.40	9.85	12.80
Tianjing	14.25	6.87	2.20	4.20	4.80	6.60	10.33	11.87
Hebei	13.39	6.70	2.20	2.53	4.69	6.16	8.87	11.96
Shanxi	13.45	6.69	1.96	2.67	5.02	5.74	9.00	14.76
Inner								
Mongolia	12.50	8.00	0.80	1.00	5.00	7.00	8.50	12.50
Liaoning	15.53	6.60	1.94	2.15	4.53	7.10	7.53	13.35
Jilin	16.67	7.13	1.72	2.51	4.91	6.43	8.10	13.70
Heilong								
jiang	12.03	6.28	2.53	3.13	4.75	6.65	9.85	12.50
Shanghai	16.00	10.50	2.18	1.80	5.30	9.23	9.87	16.36
Jiangsu	13.50	8.23	1.53	1.73	4.89	7.14	9.08	18.50
Zhejiang	14.00	8.37	1.95	1.85	5.34	8.42	10.31	15.95
Anhui	-----	7.70	1.80	1.65	5.45	7.40	8.00	10.50
Fujian	21.77	10.54	2.32	1.83	6.05	10.29	13.00	14.60
Jiangxi	19.00	9.20	1.80	1.50	6.81	12.45	9.35	11.86
Shandong	14.09	7.40	1.94	1.65	4.52	5.42	8.65	11.73
Henan	14.51	7.68	1.97	2.04	5.01	7.42	9.57	12.80
Hubei	13.00	8.97	1.90	2.29	6.44	9.35	10.33	11.31
Hunan	14.00	9.00	1.88	2.16	6.77	12.28	10.09	12.00
Guangdong	18.55	11.73	1.25	1.84	6.59	13.03	10.93	16.11
Guangxi	16.07	10.64	2.56	2.11	6.82	8.82	10.77	11.82
Hainan	22.00	10.65	----	1.63	8.30	12.07	10.35	11.50
Sichuan	13.21	8.02	2.25	2.15	7.44	13.03	10.00	11.25
Guizhou	-----	11.00	-----	-----	6.50	16.00	-----	11.00
Yunnan	13.73	10.69	5.38	5.35	8.12	13.69	14.83	11.34
Tibet								
Shaanxi	13.92	7.10	2.04	1.86	5.04	8.78	11.30	12.91
Gansu	12.59	7.25	1.94	2.82	5.27	8.90	10.12	12.41
Qinghai	13.50	10.40	2.40	2.40	5.83	10.40	11.67	13.30
Ningxia	12.20	6.53	3.07	3.93	4.87	8.00	12.00	14.33
Xinjiang	15.50	11.50	2.35	2.55	5.65	8.25	10.50	13.30
Chongqing	11.50	8.57	1.00	1.50	7.20	11.95	11.50	11.36

Average	14.76	8.47	2.20	2.33	5.89	9.32	10.21	12.56
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Note:

A = Mutton Meat

B = Pork Meat

C = Day-old Layer

D = Day-old Broiler

E = Table Egg

F = Live Chicken

G = Broiler Meat

H = Beef Meat

Unit: RMB/kg, RMB/piece; US\$1=RMB8.27

Source: MOA Statistics published on Shanghai Shangqing Magazine
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